SCB Associates Limited

Pillar 3 Disclosure Requirements
for the year ended 31 December 2018

The Capital Requirements Directive ('the Directive') of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The FCA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

The Pillar 3 disclosure document has been prepared by SCB & Associates Limited ("The Firm") in accordance with the requirements of BIPRU 11 and is verified by a senior manager. Unless otherwise stated, all figures are as at the 31st December 2018 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical, usually in accordance with the firms' submission of the annual accounts.

Under proper rule, the firm retains the right to omit required disclosures if it believes that the information is immaterial and that such omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm.

In addition, the firm retains the right to omit required disclosures where it believes that the information is regarded as proprietary or confidential. In its view, proprietary information is that which, if it were shared, would undermine the firm's competitive position. Information is considered to be confidential where there are obligations binding it to confidentiality with our customers, suppliers and counterparties.

Nonetheless, the firm maintains that it has made no omissions on the grounds that it is immaterial, proprietary or confidential.

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Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as an “Exempt BIPRU Commodities Firm” by the FCA for capital purposes and is (1) a brokerage firm with no trading exposure, nor proprietary transactions, and (2) a firm that does not hold customer capital.

The Firm is not a member of an FCA regulated group and so is not required to prepare consolidated reporting for prudential purposes.

Risk Management

The Firm has established a risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The risk management process is overseen cooperatively by the Firm’s Senior Management Team, including the Firm’s directors and the Firm’s Chief Financial Officer, who take overall responsibility for these processes and the fundamental risk appetite of the firm. These parties have joint responsibility for the enforcement of the Firm’s risk principles.

Senior Management meets on a regular basis and discusses, generally, current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. Senior Management reviews the Firm’s risks though a framework of policy and procedures having regard to the relevant laws, standards, principles and rules (including FCA principles and rules); the firm aims to operate a defined and transparent risk management framework. These policies and procedures may be updated as required.

The Senior Management team has identified two main risks to which the Firm is exposed: business risks & operational risks. The Senior Management team may, from time to time, formally or informally review risks, controls and other risk mitigation arrangements and assess their effectiveness.

Operational issues are disclosed to the Senior Management team on an ongoing basis.

Appropriate action is taken where risks are identified which fall outside of the Firm’s tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the firm’s mitigating controls.

The firm takes no positions in any regulated marketplace.

Commissions are settled promptly at the conclusion of a transaction, and all bank accounts are held with large international credit institutions.

Market Risk

The Firm takes no principal market risk. The firm maintains a limited license as a matched principal broker by the FCA, allowing it to execute give-up transactions. Such transactions are immediately, and always, given-up to customers, and the firm never takes a position in the marketplace as a result. Thus, the firm has no market risk, and this is therefore excluded on the basis of applicability.

Business risk

The firm’s revenue is dependent on its ability to access trading and hedging orders in the markets in which it operates; it is exposed to the existence and volume of the trade flows themselves. The size of the trading activity or volumes is a result of the supply-demand

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economics inherent in the underlying commodities, economic growth and development of the countries and industries in which the commodities are used as inputs. The price volatility exhibited by the markets is a direct effect of the imbalance of such supply-demand equilibriums, a healthy price volatility is generally good for hedging and trading volumes. The energy derivatives brokerage desk, accordingly, may be exposed to such business cycles. For our Physical desk, the primary (though non-exclusive) business risks are of a governmental and regulatory nature, with high sensitivity to changes in government subsidies, trade barriers and legislation.

Operational risk

The Firm relies on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

i. **Dealing errors**

The Firm makes note of a key operational risk related to the potential existence of errors from order executions that may, from time to time, occur. All execution brokers employed have significant experience and knowledge of the business and products traded and are CF30 approved by the FCA. The firm has an explicit process for ensuring that any such risks are corrected as soon as employees are aware of it, mitigating the loss for the company and client. All errors are reviewed by Senior Management. Where necessary, the Firm will review processes and training requirements to address any issues and minimize re-occurrence.

Regulatory capital

The Firm is a Limited Liability Company. The Firm's capital requirements have been determined according to the relevant statutes. Please see below for a breakdown of the regulatory capital requirements. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FRR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year. The main features of the Firm's capital resources for regulatory purposes are as follows:

	31.12.2018 £000
Tier 1 capital*	2,007
Tier 2 capital	0
Tier 3 capital**	0
Deductions from Tiers 1 and 2	0
Total capital resources	**2,007**
*No hybrid tier one capital is held **Note: Tier 3 capital is to be removed under the CRD IV	

The figures above are taken from the Firm's FCA Balance Sheet filing on 12.02.2019.

The Firm is small and maintains a simple operational infrastructure.
As discussed above, the firm is an "Exempt BIPRU Commodities Firm" and as such its capital requirements are the sum of:

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- Base requirement, which is the higher of the Absolute minimum requirement, Expenditure requirement or Volume of business requirement;
- Total Liquidity Adjustment
- Charged Assets
- Contingent Liabilities
- Deficiencies in subsidiaries
- Total Position Risk Requirement
- Total Credit Risk Requirement

The Financial Resources Requirement is calculated in accordance with FCA rules for Exempt BIPRU Commodities Firms which require it to comply with the Interim Prudential Sourcebook for Investment Businesses (“IPRU-INV”).

Capital requirement

The Firm’s Pillar 1 capital requirement has been determined by reference to the Firm’s Financial Resources Requirement FRR and calculated in accordance with the FCA’s rules for Exempt BIPRU Commodities Firms, which require it to comply with IPRU-INV.

The Base Requirement is based on the Relevant Annual Expenditure computed to be 6/52nds of annual expenses net of variable costs deducted, which include licence fees, execution fees and bonuses, which have been deducted. The Firm monitors its expenditure on a regular basis and takes into account any material fluctuations in order to determine whether the FRR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.

This is monitored by the Accountant and reported to senior management on a regular basis.

Remuneration code disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as “Exempt BIPRU Commodities Firm” and so it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA’s Handbook. The Remuneration Code (“the RemCode”) covers an individual’s total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

The Firm's business is to provide services related to arranging transactions for clients, commonly referred to as a “broker”.

The Firm’s compensation arrangements:

1. are consistent with and promote sound and effective risk management;

2. do not encourage excessive risk taking;

3. include measures to avoid conflicts of interest; and

4. are in line with the Firm's business strategy, objectives, values and long-term interests.

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Summary of information on the decision-making process used for determining the firm's remuneration policy, including use of external benchmarking consultants where relevant.

- The Firm's policy will be reviewed from time to time or following a significant change to the business requiring an update to its internal capital adequacy assessment.
- The Firm's ability to pay discretionary bonus is based on the performance of the Firm overall and derived after appropriate profit has been calculated under the Firms valuation policy, which is reviewed on an annual basis.
- Further, Broker commission payment rates are fixed and set out in the individual contracts and are directly linked to revenue generating ability of the individual brokers.

Summary of how the firm links between pay and performance.

- Individuals are rewarded based on their contribution to the overall strategy of the business.
- Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior/operational staff responsible for the infrastructure of the firm.

Aggregate quantitative information on remuneration broken down by significant business division.

Business Area	**Aggregate compensation expense for prior fiscal year**
Brokerage	£1,499,034
Corporate	£685,520

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

We have made no omissions on the grounds of data protection.

A note on Materiality

A firm must regard information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions.

A firm must regard information as proprietary information if the sharing of that information with the public would undermine its competitive position.

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Proprietary information may include information on products or systems which, if shared with competitors, would render the firm's investment in them less valuable.

A firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

CEBS has stated that it is unlikely that the disclosure of information relating to remuneration would be confidential or proprietary for firms that have been allowed to aggregate the information due to proportionality. Where there is a limited number of Code Staff then the firm may consider such omissions.

SEE FCA Templates on Remuneration Code and FAQ for further consideration.